

Nikkei South Korea Manufacturing PMI[®]

Output volumes stabilise during April, lifting PMI to six-month high

Key points:

- Weaker demand from domestic and external markets
- Production levels stabilise as firms run down stocks
- Falling sales and rising competition leads to further price discounting

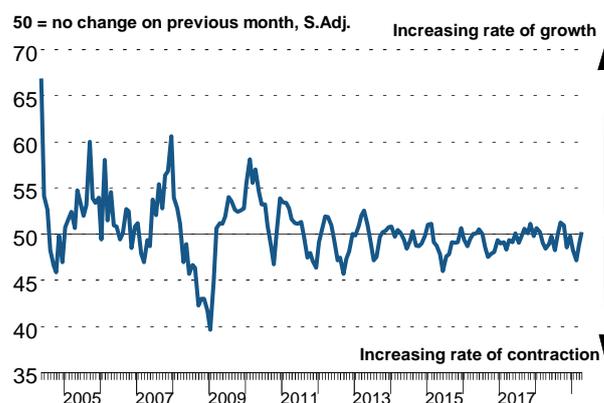
Data collected April 10th – 18th

Business conditions in South Korea's goods-producing economy improved marginally at the beginning of the second quarter, supported by a stabilisation in output and increased employment. New orders continued to fall amid reports of weakness in domestic and external markets, but the rate of decline was softer than in March. To stimulate demand, firms cut their output charges, despite input costs rising at a faster pace. Regarding the outlook, business confidence remained subdued.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – increased to a six-month high of 50.2 during April, from 48.8 in March, indicating a less challenging business environment for South Korean manufacturers. Lifting the PMI were rises in the indices of the three major sub-components, new orders, output and employment.

Production volumes broadly stabilised during April. The seasonally adjusted Output Index reached its highest point in six months, as some firms noted an improvement in sales. Nonetheless, struggles in the automobile and semi-conductor industries led to cutbacks in other instances. Total new orders remained along a downward trajectory during the latest survey period, with weakness in demand arising from both domestic and external markets. That said, the rate of decline was the weakest since last December. The downturn in overseas orders was attributed to lower inflows of work from clients in Europe, China, Japan and Myanmar.

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Sources: Nikkei, IHS Markit

Nonetheless, firms expanded employment in April, with new product developments and efforts to comply with the recently-implemented 52 working hour week supporting jobs growth. This was the first time since October 2018 that staffing levels had increased, but the rise was slightly below the long-run average.

Latest survey data pointed to a further decline to stock levels at South Korean manufacturers. Both pre- and post-production inventories were reduced due to slower new order intakes. Holdings of finished goods were also used to clear backlogs of work, which were depleted at the fastest pace since June 2015.

However, firms stepped up their buying activity, despite reduced production and demand. According to anecdotal evidence, additional inputs were purchased for new product lines and to avoid expected rises in raw material costs. Pressures on supply chains intensified, with delivery times lengthening to a fastest extent in almost a year amid reports of issues with overseas vendors.

On the price front, input costs increased at a faster rate, with reports of material prices and labour expenses increasing. That said, competitive pressures and requests for discounts from clients prompted firms to cut selling charges.

Looking forward, business confidence remained subdued by historical standards. Although some firms anticipate domestic economy improvements, concerns towards export markets weighed on sentiment.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“Supporting the rise in South Korea’s Manufacturing PMI in April were stable output volumes and a renewed uptick to employment. Nevertheless, the underlying story remained gloomy. Job creation was flattered by hiring to comply with new working-hour regulations, as opposed to supplementing greater demand. Sluggish sales in semi-conductor and automobile-related industries were reported by some panellists, while demand from Europe, China and Japan was also reportedly subdued. Some companies resorted to price cuts to drive sales. Consequently, business confidence remained sub-par, with firms expressing little optimism that global export headwinds will fade any time soon.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Joe Hayes, Economist
Telephone +44 1491 461 006
Email joseph.hayes@ihsmarkit.com

Joanna Vickers, Marketing and Communications
Telephone +44 207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*[®] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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